

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7531

Petition of Vermont Transco LLC for Approval to)
Issue not to Exceed \$85 Million in Secured First)
Mortgage Bonds Pursuant to 30 V.S.A. § 108)

Order entered: 8/6/2009

I. INTRODUCTION

On June 17, 2009, Vermont Transco LLC ("Transco" or "the Company") filed a petition (the "Petition") pursuant to 30 V.S.A. § 108 with the Vermont Public Service Board ("Board") seeking approval to issue first-mortgage bonds in an amount not to exceed \$85 million under its First Mortgage Indenture (the "Bonds"). The proceeds of the Bonds will be used to repay short-term indebtedness incurred in connection with Transco's Northwest Reliability Project and smaller transmission projects. The Petition was supported by the prefiled testimony of Neal F. Robinson, the Company's Chief Financial Officer, and by accompanying attachments.

On July 20, 2009, the Department of Public Service ("DPS") filed a letter, with an attached Determination Under 30 V.S.A. § 202(f), with the Board recommending that the Board approve the Petition without hearing, finding that the issuance of long-term debt as set forth in the Petition is consistent with the Vermont Electric Plan.

On July 23, 2009, the DPS submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

II. FINDINGS

1. Vermont Transco LLC is a limited liability company subject to the jurisdiction of the Public Service Board. Petition at 1.
2. Transco requests Board approval to issue the Bonds, to be designated Series S, under its existing Indenture of Mortgage in the principal amount of \$85 million. The Bonds will have

maturities of 20 to 30 years. The proceeds of the Bonds will be used to pay down short-term indebtedness incurred in connection with Transco's Northwest Reliability Project and smaller Transco transmission projects. Robinson pf. at 2.

3. The Bonds encumber substantially all of the assets of Transco, including substantially all of Transco's operating real estate, plant and equipment, and after-acquired property. Petition at 1.

4. The Bonds will be issued by direct placement through Transco's agent Manor Private Capital ("MPC"). MPC will arrange to place the entire issuance with an insurance company or insurance companies (to be determined), at an expected fixed rate of interest of 6% to 8%. Transco anticipates that there will be interest in the Bonds among insurance companies due to the Company's strong credit rating ("A low-stable" rated by the Dominion Bond Rating Agency) and the current level of demand for bonds issued by similarly-rated utilities in the U.S. public and private placement markets. Robinson pf. at 3.

5. Transco's capital structure is currently 42.31% debt and 57.69% equity. After the proposed issuance of the Bonds, debt will comprise 51.26% of total capitalization and equity will represent 48.74%. Pursuant to its five-year construction and financing plan, Transco expects to maintain a capital structure of approximately 50% debt and 50% equity. Robinson pf. at 5; exh. TRANSCO NER-1; exh. TRANSCO NER-3.

6. Transco's earnings, operating cash flows, and coverage ratios (as measured in Earnings Before Interest and Taxes ["EBIT"] and Earnings Before Interest, Taxes, Depreciation, and Amortization ["EBITDA"]) have shown consistent improvement since the Company's inception in 2006 and illustrate Transco's capacity to assume additional debt. In 2008, net earnings increased by \$21.7 million to \$35.6 million, driven primarily by corresponding growth in transmission revenue which rose by \$23.7 million to \$73.5 million. Adjusted operating cash flow was also up in 2008 by \$22.9 million to \$38.3 million; however, this was largely offset by capital expenditures of \$97.4 million for the same time period. EBITDA interest coverage (gross) increased from 2.1 in 2007 to 4.0 in 2008. Robinson pf. at 5; exh. TRANSCO NER-4; exh. TRANSCO NER-5.

7. The proposed financing is consistent with the general good of the state because it will

provide Transco with the capital necessary to construct major transmission projects which have Certificates of Public Good from the Board. Robinson pf. at 6.

III. DISCUSSION & CONCLUSION

Based on the evidence, I conclude that Transco's request to issue the Bonds in an amount not to exceed \$85 million through direct placement, and secured under its First Mortgage Indenture, will be consistent with the general good of the state. The Bonds will provide a source of capital for Transco so that it may continue to finance its major transmission projects which in turn will improve reliability for Vermont ratepayers. Therefore, I find that approval of Transco's request for long-term indebtedness as described above is consistent with the general good of the state and recommend that the Board issue an order to that effect.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. §811.

Dated at Montpelier, Vermont this 30th day of July, 2009.

s/Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. The Findings, Conclusion, and recommendations of the Hearing Officer are adopted.
2. The Board consents to the issuance by Vermont Transco LLC ("Transco" or "the Company") of first mortgage bonds, designated as Series S, in an amount not to exceed \$85 million and secured under its First Mortgage Indenture, as set forth in the findings, above.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Transco may implement. Nothing in this approval shall preclude the Vermont Department of Public Service ("Department") or any other party, or the Board, from reviewing and/or challenging those expenditures and/or Transco's resulting capital structure in any future proceeding.
4. Transco shall inform the Board and the Department of any material change in the terms and conditions of the financing, if any, prior to closing.
5. Upon request, Transco shall provide the Board and the Department with a complete set of final executed documents when they are available.

Dated at Montpelier, Vermont, this 6th day of August, 2009.

<u>s/James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: August 6, 2009

ATTEST: s/Susan M. Hudson
CLERK OF THE BOARD

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.